

Message Text

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ORIGIN NEA-12

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 IGA-02 CIAE-00

DODE-00 INR-10 NSAE-00 PA-03 USIA-12 PRS-01 COME-00

FRB-02 XMB-07 OPIC-12 LAB-06 SIL-01 AGR-20 /159 R

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FM SECSTATE WASHDC

TO AMEMBASSY COLOMBO

C O N F I D E N T I A L STATE 129268

E.O. 11652: GDS

TAGS: EAID, CE

SUBJ: PLANNING SECRETARY'S MEETING WITH ASST. SECY

SISCO

1. SUMMARY: MEETING TOOK PLACE JUNE 27. GUNASEKERA WAS ACCOMPANIED BY KAPPAGODA AND DE ALWIS. PL-480, CARE AND CEYLONSE EFFORTS TO OBTAIN IMF STANDBY WERE DISCUSSED. SISCO INDICATED GREAT DIFFICULTY WE ARE HAVING WITH PL-480 BUT ASSURED GUNASEKERA WE WOULD DO BEST WE CAN. END SUMMARY.

2. GUNASEKERA NOTED THAT HE HAD LAST MET SISCO DURING TOUR OF CAPITALS PRIOR TO AID GROUP MEETING AND SAID HE WANTED TO AGAIN EXPRESS DEEP APPRECIATION OF GSL FOR ROLE USG PLAYED IN ENSURING MEETING WAS HELD. HE THEN NOTED IMPORTANCE OF PL-480 SHIPMENTS IN EASING SEVERE ECONOMIC PROBLEMS GSL IS FACING AND ASKED THAT SHIPMENTS COMMENCE AS SOON AS POSSIBLE. HE SAID SITUATION IN SRI
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LANKA IS BECOMING SO DIFFICULT THAT GSL NOW BEGINNING TO FEAR POSSIBILITY OF FOOD RIOTS.

3. SISCO SAID THAT PL-480 SITUATION IS VERY WORRISOME AND STRAIN ON OUR RESOURCES SIMPLY COULD NOT BE PRE-DICTED. WE ARE CONCERNED BECAUSE SO MANY COUNTRIES DEPEND ON US AND WE HOPE NO SERIOUS DROUGHTS WILL OCCUR. WE

ARE CONCERNED ABOUT SRI LANKA'S SITUATION AND WANT TO ASSURE THEM THAT THE PROBLEM IS NOT ONE OF POLICY AT ALL BUT SIMPLY A PRACTICAL PROBLEM WHICH DEPENDS ON VARIABLES OVER WHICH WE AND THE CEYLONSE SIMPLY HAVE NO CONTROL. SUPPLY SITUATION HAS BECOME SO TIGHT THAT WE ARE EVEN HAVING TO CONSIDER THE POSSIBILITY OF EXPORT CONTROLS. WE WILL, HOWEVER, DO THE VERY BEST WE CAN.

4. ON CARE, GUNASEKERA REQUESTED THAT SPECIAL CONSIDERATION BE GIVEN TO PROVIDING THE \$2.4 MILLION IN COMMODITIES CALLED FOR BY THE AER SUBMITTED BY CARE. HE WAS TOLD THAT BUDGETARY PROBLEMS PRETTY MUCH RULED OUT ANYTHING ABOVE THE \$1.9 MILLION LEVEL.

5. IN RESPONSE TO SISCO'S QUESTION AS TO HOW MATTERS STOOD WITH STANDBY NEGOTIATIONS AT IMF, GUNASEKERA SAID HE HAS FEELING FUND DOES NOT FULLY APPRECIATE STEPS WHICH GSL HAS TAKEN TO CUT CONSUMPTION. GSL HAS REDUCED CONSUMPTION BY OVER RS. 400 MILLION. GSL WOULD HAVE HAD THIS AMOUNT AVAILABLE FOR INVESTMENT IN PRODUCTIVE ACTIVITIES IF WORLD PRICES OF FOOD HAD NOT RISEN SO PRECIPITOUSLY. IMF WOULD LIKE TO SEE LARGER BUDGETARY SURPLUS THAN PRESENT RS. 62 MILLION, WHICH WOULD HAVE BEEN MORE WITHOUT FOOD PRICE INCREASES, AND ALSO WOULD LIKE GSL TO DEVALUE TO UNITARY EXCHANGE RATE. GSL BELIEVES LATTER IS POLITICALLY INEXPEDIENT AND WOULD BRING LITTLE ECONOMIC BENEFIT TO COUNTRY AS TRADITIONAL EXPORTS ARE UNLIKELY TO INCREASE SHARPLY AS RESULT. GUNASEKERA SAID HE HOPED RECOGNITION WOULD BE GIVEN TO FACT THAT SRI LANKS HAD BEEN FOLLOWING INCORRECT ECONOMIC POLICIES FOR 25 YEARS. HE FEELS CONSIDERABLE PROGRESS HAS BEEN MADE IN TURNING THIS AROUND IN PAST THREE YEARS. HOWEVER, MOVING TOO SWIFTLY CAN LEAD TO POLITICAL INSTABILITY.
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5. FINALLY, GUNASEKERA SAID THAT AT PRESENT TIME, STANDBY WITH IMF WAS MOST IMPORTANT TO GSL AND ASKED THAT USG SUPPORT CEYLONSE REQUEST WHEN IT CAME UNDER CONSIDERATION BY FUND. HE NOTED THAT US REP AT FUND HAD MADE SOME CRITICAL COMMENTS AT RECENT CONSIDERATION OF GSL'S REQUEST FOR COMPENSATORY FINANCING AND SAID HE HOPED THIS DID NOT MEAN US WOULD OPPOSE STANDBY REQUEST. SISCO SAID WE WOULD FOLLOW MATTER CLOSELY AND THAT WE WOULD CONTINUE TO PARALLEL GSL POSITION WHENEVER WE CAN. RUSH

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